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C O N F I D E N T I A L SECTION 01 OF 02 GUATEMALA 001465

SIPDIS

TREASURY FOR OASIA: JOHN JENKINS AND BILL BLOCK  
PANAMA FOR TREASURY ATTACHE

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TAGS: [KCOR](#) [EFIN](#) [PGOV](#) [GT](#)

SUBJECT: SOCIAL SECURITY SCANDAL HITS FRG UNITY

REF: GUATEMALA 1388

1. (SBU) SUMMARY: Critics continue to pounce on the ruling FRG for the scandal over the plundering of an estimated \$45 million in funds from Guatemala's social security institute (IGSS). President Portillo is rumored to have given the green light for a thorough investigation. The President, Vice President Francisco Reyes, President of Congress Efraín Ríos Montt, and those more directly involved in the scandal have shown incredible disunity as each passes the blame to someone else. Few new details of the actual crime have emerged, though Attorney General Carlos de León keeps pushing the case (and accompanying headlines) along. Former IGSS General Manager César Augusto Sandoval turned himself in after an abortive attempt to seek witness protection and has implicated former IGSS President of the Board and FRG Deputy Carlos Wohlers as the intellectual author. Arrest warrants have been issued for all former IGSS board members. The Constitutional Court (CC) overturned the Vice President's order to intervene in the IGSS, so it remains technically independent. In a blow to Reyes, Portillo named his close friend and former Foreign Ministry Vice Minister Jorge Pérez as the new IGSS President. END SUMMARY.

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EVERYBODY SINGING "NOT ME"  
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2. (SBU) The IGSS scandal detailed in REFTEL has brought about an unprecedented amount of internal bickering among ruling party officials--unprecedented even by the standards of this notoriously fractured government. Well-placed contacts argue that President Portillo feels he can successfully isolate himself from the scandal, so he has given the green light for a full investigation. The implication is that either the Vice President or FRG members close to Efraín Ríos Montt will be damaged. FRG Deputy Haroldo Quej has frequently called press and opposition attention to the case a "political lynching" and has claimed that the FRG will come out clean. Ríos Montt and Vice President Reyes publicly disagreed over various aspects of the case and how well they each know Cobán businessman and key figure in the alleged crime Gustavo Adolfo Herrera Castillo. Newspaper headlines one day quoted Reyes saying he had forgotten that he had once dined at Herrera's house. Reyes also earned guffaws from commentators when he was quoted saying that the Guatemalan people were just as responsible as any public figure since they voted for this government.

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WOHLERS BLAMES SANDOVAL WHO BLAMES WOHLERS  
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3. (C) The three most central figures in the scandal are FRG Deputy and "Riosmonttista" Carlos Wohlers, who served as President of the IGSS while the alleged thefts occurred; former IGSS General Manager César Augusto Sandoval; and Gustavo Herrera. Sandoval negotiated his surrender to authorities with Attorney General Carlos de León who allegedly promised Sandoval leniency under Guatemala's witness protection law. In return, Sandoval promised to provide evidence proving that Wohlers was wholly responsible for the theft of funds. In the end, the courts asserted that de León did not have the authority to place a suspected felon under witness protection and ordered Sandoval to prison. Wohlers has strongly denied involvement, with FRG (read Ríos Montt) moral support, and counters he was unaware of Sandoval's activities. However, a move to strip him of his congressional immunity proceeds. Other members of the board have used the same defense. Herrera remains in the background as the figure most likely responsible for showing the others how to steal and launder the IGSS funds, although recent press reports indicate that the former Vice President of the IGSS board and close adviser to Ríos Montt, Jorge Mario Nufio, also could have been the brains behind the scam. NOTE: Nufio was the congressional lead on the drafting of Guatemala's money laundering legislation and its financial reform legislation. He was also a member of the Monetary Board, which is responsible for setting monetary policy and supervision of the financial system. END NOTE.

#### WHO RUNS THE IGSS NOW

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14. (SBU) REFTEL reported that Reyes had almost immediately "intervened" in the IGSS after the scandal broke. Critics quickly charged that the Vice President was leading a cover up and claimed that the executive had no authority to intervene in an independent agency. Guatemala's umbrella business organization (CACIF) filed a case with the Constitutional Court, which ruled the intervention unconstitutional. Reyes responded that he respects the courts decision even if he finds it very damaging to the country. After the ruling, Portillo named his close personal friend and former Vice Minister of Foreign Relations Jorge Perez to be the new General Manager. This is viewed by many to be a poke at Reyes given his poor relations with Perez.

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#### COMMENT

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15. (C) Little new information has been published on the IGSS scandal, but the opposition, press, and even FRG members have all been caught up in something of a food fight. Even Attorney General Carlos De Leon has fallen into the scandal after it was revealed that he had been an adviser to another housing trust fund in which the IGSS had invested approximately \$7.5 million. The political ramifications are difficult to predict in a country accustomed to corruption scandals. However, the quantity of money missing and the clear money trail revealed by money laundering investigators mean that someone will probably have to take a hard fall. Moreover, IGSS is Guatemala's social security, Medicare and Medicaid wrapped in one institution. The populist leaning FRG will have a difficult time explaining to Guatemala's overwhelmingly poor population how it should not be held responsible for deteriorating service at the IGSS after its administration saw \$45 million stolen from the people's savings.

MCFARLAND